

Impact Fees

Description

Impact fees are a one-time, monetary charge imposed on new development by a government unit to defray the capital costs of maintenance, construction or expansion of infrastructure needed to serve the new development such as roads, parks, and sewers. Impact fees are an alternate way of obtaining additional funds for capital improvements rather than through the use of traditional state and local taxes. This source of infrastructure funding is especially successful in moderate or rapidly growing communities. According to Indiana State Law (IC 36-7-4-1300 series), municipalities can enforce an impact fee on developers during the development approval process by adopting an Impact Fee Ordinance.

There are some requirements, however, that communities must meet before an impact fee ordinance is adopted and fees may be collected. The planning unit must have adopted a comprehensive plan for the entire jurisdiction that the impact fee ordinance will affect. An impact fee advisory committee must also be formed to guide the decisions of the adopting unit (this committee may be an already established committee such as the plan commission or other development related committee).

The first step in creating an impact fee ordinance is establishing an impact zone for each type of infrastructure that is included in the ordinance. This geographical zone must have some functional relationship to the infrastructure improvements that will be made with the collected fees. For example, fees collected for a new development on the west side of a municipality must be used for improvements and expansions within that same west side area.

In order for impact fee ordinances to be adopted, the planning unit must have also completed or updated infrastructure improvement plans for the areas that fall within the impact zone during the previous year. These improvement plans must include information and analysis of existing infrastructure, current levels of service, projected levels of service, capacity levels of service, estimated locations and costs of additional services as development occurs, and general projections of development within the zone for ten years.

An impact fee ordinance must include a schedule stipulating the amount of fees that may be imposed for each type of infrastructure and a formula stating how these fees are derived. The fee schedule and formula must provide a uniform standard for calculating the impact fees in order for payers to calculate the imposed fees on their development. There are two ways of constructing formulas for the collection of development impact fees:

- 1.) A flat fee is charged for connection to the provided service or amenity.
- 2.) A three-part tariff
 - a. Costs of the facility to provide the service (construction of new facilities)
 - b. Cost of the facility to deliver the service (based upon distance from facility)
 - c. Actual usage amounts (larger developments vs. single family)

The latter method allows for officials to choose the locations of their new facilities and how to charge for their uses. The market then determines where and what types of efficient development would occur based upon the appropriate fee schedules. Impact fees may also be collected in different ways. Fee payers may choose to pay all costs up front when other permits and fees are received. However, there must also be the option for payers to follow an equal installment plan.

The process and rules regarding the collection of fees, fee appeals, reduced rates, use of fees, etc. can be found in much more depth in the Indiana State Code (IC 36-7-4-1300 series).

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Impact fees can be somewhat controversial because although they do not alter the amount or quality of service, they do affect who may pay for them. Communities should make a decision as to who will be responsible for the additional costs of upgrades and additions. This is a touchy matter because existing residents can say no to raise the taxes needed for new facilities that will primarily be serving new residents. However, if the costs are placed on new development, current residents may reap the benefits from the construction and improvements of public facilities without having to pay for them at all.

Impact fees can sometimes also be contradictory to a communities overall vision or economic development. As impact fees are implemented where new development is projected, the new development could instead be constructed just outside the impact fee jurisdiction. This creates undeveloped gaps within communities that are not part of the overall vision and contribute to sprawl. Additionally, impact fees can deter new development entirely. Businesses may choose to locate in a community without impact fees, negatively effecting an area's economic development.

Relevant Statutes

- IC 36-7-4-1300 Series- Impact Fees

Capacity Recommendations

- A comprehensive plan must be adopted
- An impact fees advisory committee must be formed.
- An impact zone or set of zones must be established
- A zone improvement plan which describes current conditions and projected needs must be formed.
- Communities must be capable of implementing the facility improvements in a well planned way. This involves additional administrative staff and further time efforts that a straining community may not have available.

Guidelines / Considerations for Implementation

- Impact fees may discourage development within the community, lower land values because of the imposed fees, and require additional efforts in capital facilities planning to ensure the monies are spent correctly.
- Education programs can be implemented to teach residents and the business community the benefits about impact fees and what they will be used for.

Example Ordinances

- **City of Noblesville, IN – Parks and Roads Impact Fee Ordinance:** For more information about the city's impact fee ordinances use the contact information below:

Noblesville Planning Department
 Steven R. Huntley, Directory
 City Hall
 16 S. 10th Street, Suite 150
 Noblesville, IN 46060
 Tel: (317) 776-6325
 Fax: (317) 776-4638

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- **City of Carmel, IN – Impact Fees Ordinance:** For more information about the city’s impact fee ordinances use the contact information below:

Planning & Zoning
Carmel City Hall
One Civic Square
Carmel, IN 46032
Tel: (317) 571-2417

Example Studies

No example studies are available for this tool.

Helpful References and Links

- **Impactfees.com:** Formed by Duncan Associates, this online resources is “the most comprehensive and current collection of online information regarding impact fees and infrastructure financing.” [\[http://www.impactfees.com/\]](http://www.impactfees.com/)

Helpful Contacts

- See Indiana example ordinances for more possible contact information.

Other Possible Funding Sources

No other funding sources have been identified for this tool.

Program Objectives and Issues Addressed

- Growth management
- Transportation/Infrastructure planning
- Sprawl
- Lack of capital funding
- Overwhelmed facilities
- Lack of services and amenities

See Also

- Tax Increment Financing
- Capital Improvement Plan
- Special Improvements District
- State Programs